

CITY COUNCIL REPORT



Meeting Date: May 3, 2011
 Charter Provision: *Provide for the orderly government and administration of the affairs of the City*
 Objective: *Determine Policies*

ACTION

Clarification of the City Auditor's authority over city audits. Adopt Ordinance No. 3938 to clarify the City Auditor's authority over city audits other than those specifically provided in Code to be conducted by Tax Audit or the City Treasurer.

BACKGROUND

The purpose of this request is to improve City efficiency, minimize duplication, and ensure Audit Committee review of city audits. It also will, consistent with recent voter-approved charter changes, clarify that any charter officer may request a special audit. At its March 21, 2011, meeting, Audit Committee members expressed support for the proposed revisions.

In 1988, the Scottsdale City Council rejected the premise that the City Manager should have oversight of the City's audit activities, choosing instead to ask voters to approve a City Charter amendment establishing a City Auditor reporting to the City Council. Voters approved the proposed Charter amendment, and in May 1989, the City Council adopted Ordinance 2236 to formally implement the City Auditor function.

Currently City Code Sec. 2-120 requires the City Auditor to submit an annual audit plan to the Audit Committee for review and recommendation, and to the City Council for review and approval. The City Auditor is to consult with the City Manager and other charter officers to enhance audit coverage and coordination. Further, City Code Sec. 2-121 currently states that the City Manager may request the City Auditor to perform special audits that are not included in the annual audit plan. The Audit Committee may approve the requested audit as an amendment to the annual audit plan.

Code Sec. 2-128 provides that, upon approval of the City Council during the budgetary process, the City Auditor may obtain the services of certified or registered public accountants, qualified management consultants, or other similar experts necessary to assist in the performance of his/her duties.

While the City Auditor's responsibility for audit coordination is established and oversight authority may be inferred, City Code does not specifically prevent other City staff from choosing to procure duplicative or unnecessary audit services. In some instances, City divisions have contracted, or proposed to contract, directly for audits.

ANALYSIS & ASSESSMENT

Recent Staff Action

In the past two years, there have been at least two requests for proposals for billing audits. For one, the City Auditor coordinated with the division and, with approval of the Audit Committee, added this audit to the annual audit plan. For the second, the City Auditor determined it would have duplicated audit work already being developed for the FY 2011/12 audit plan. In addition, billing audit consultants are paid with a percentage of cost recoveries or future savings identified, with the percentages often ranging from 20% to 40%. For future savings, these percentages are paid on an ongoing basis for a specified number of years. In contrast, when savings are identified by the City Auditor's office, these amounts are fully available to the City. Also, internal audits have the added benefit of identifying management control improvements to avoid future overpayments.

Policy Implications

The proposed clarification would require City management to coordinate audit efforts with the City Auditor, ensure Audit Committee oversight and public reporting of city audits, avoid duplication of audit efforts and minimize added expense.

The proposed Ordinance would also clarify that any charter officer may request the City Auditor conduct a special audit. Existing City Code only specifies that the City Manager may request a special audit. Such requests would still be subject to review by the Audit Committee.

Significant Issues to be Addressed

Some activity that is labeled as "audit" does not actually rise to the level of an independent audit. Although not always a clear line, generally the distinction between management activities that are labeled "audit" and an independent audit will lie in the nature and timing of the activity. For example, in the City's meter reading area, on a daily basis water audit technicians reread meters when management reports or a citizen concern indicates a possible misreading. In contrast, the City Auditor's office is currently conducting a meter reading audit to independently assess the processes, controls and cost-efficiency of the Meter Reading program.

RESOURCE IMPACTS

Available funding

Any additional audits would be factored into developing the City Auditor's annual audit plan, including any necessary amendments to the plan during a fiscal year. When necessary, available funding would be identified before proposing an audit that will incur additional costs.

Staffing, Workload Impact

Any additional audits would be factored into developing the City Auditor's annual audit plan, including any necessary amendments during the year.

Maintenance Requirements

Not applicable.

Future Budget Implications

Not applicable.

Cost Recovery Options

Not applicable.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Approve Ordinance No. 3938 to clarify the City Auditor's authority over city audits.

Description of Option B

Not approve Ordinance No. 3938.

Proposed Next Steps

If the Ordinance is approved, the City Auditor will work with city management as questions arise regarding which "audit" activities require the City Auditor's involvement. As well, the City Auditor will work with city management when audits are requested.

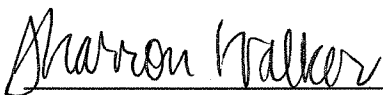
RESPONSIBLE DEPARTMENT(S)

Office of the City Auditor

STAFF CONTACTS (S)

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APPROVED BY



Sharron Walker, City Auditor

480-312-7867, swalker@scottsdaleaz.gov

4-19-11

Date



David Richert, City Manager

480-312-2811, drichert@scottsdaleaz.gov

4/19/2011

Date

ATTACHMENTS

1. Ordinance No. 3938.

ORDINANCE NO. 3938

AN ORDINANCE OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, AMENDING ARTICLE III OF CHAPTER 2, ADMINISTRATION, OF THE SCOTTSDALE REVISED CODE, TO CLARIFY THE CITY AUDITOR'S AUTHORITY OVER CITY AUDITS.

WHEREAS, the voters of the City of Scottsdale approved a City Charter amendment establishing a City Auditor who reports to the City Council; and

WHEREAS, the City Auditor's efficient management of city audits should be clarified in the City Code.

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Scottsdale as follows:

Section 1. Chapter 2, Administration, Article II, Section 2-120, of the Scottsdale Revised Code is hereby amended as follows, with new language shown in shaded format and deleted language in strikethrough format:

Sec. 2-120. Annual audit plan.

(a) At least annually, the city auditor shall submit an audit plan to the audit committee for review and recommendation, and the city council for review and approval. The plan shall include the ~~divisions~~, departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review by the audit committee. Additionally, the city auditor may spontaneously initiate and conduct any other audit deemed necessary or as directed by the city council.

(b) In the selection of audit areas, the determination of audit scope and the timing of audit work, the city auditor should consult with federal and state auditors and independent auditors so that the ~~desireable~~ ~~desirable~~ audit coverage is provided and audit effort may be properly coordinated. The city auditor should consult with the city manager and other charter officers in a similar fashion to enhance audit coverage and improve audit coordination.

(c) Except for audits provided in Code to be conducted by tax audit or the city treasurer, only the city auditor may conduct audits of city divisions, departments, offices, boards, activities and agencies. However, special audits may be requested through the process established in Sec. 2-121.

Section 2. Chapter 2, Administration, Article II, Section 2-121, of the Scottsdale Revised Code is hereby amended as follows, with new language shown in shaded format and deleted language in strikethrough format:

Sec. 2-121. Special audits.

(a) ~~The city manager~~ A charter officer may request the city auditor to perform special audits that are not included in the annual audit plan. After consultation with the audit committee, a special audit requested by ~~the city manager~~ a charter officer may become an amendment to the annual audit plan.

(b) The city auditor shall submit the report of the special audit to the city manager, ~~the charter officer who requested the audit~~, and the audit committee.

PASSED AND ADOPTED by the Council of the City of Scottsdale this 3rd day of May, 2011.

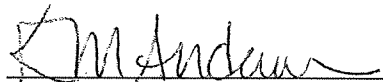
ATTEST:

CITY OF SCOTTSDALE, an
Arizona municipal corporation

By: _____
Carolyn Jagger
City Clerk

By: _____
W.J. "Jim" Lane
Mayor

APPROVED AS TO FORM:

 _____

Bruce Washburn, City Attorney
By: Kathe Anderson, Assistant City Attorney